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FENNEMORE CRAIG  
A Professional Corporation  
Jay L. Shapiro (No. 014650)  
Patrick J. Black (No. 017141)  
3003 North Central Avenue, Suite 2600  
Phoenix, Arizona 85012  
Telephone (602) 916-5000

Attorneys for EPCOR Water (USA) Inc.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR INCREASES  
IN ITS RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE BY  
ITS AGUA FRIA WATER DISTRICT,  
HAVASU WATER DISTRICT AND  
MOHAVE WATER DISTRICT

DOCKET NO: W-01303A-10-0448

**NOTICE OF FILING TESTIMONY**

EPCOR Water (USA), Inc., through undersigned counsel, hereby provides notice of filing the Testimony of James W. McKee in support of the Settlement Agreement, which is also being filed in the above-captioned docket.

RESPECTFULLY SUBMITTED this 15th day of December, 2011.

FENNEMORE CRAIG, P.C.

Jay L. Shapiro  
Patrick J. Black  
3003 N. Central Avenue, #2600  
Phoenix, Arizona 85012  
Attorneys for EPCOR Water (USA) Inc.

1 **ORIGINAL** and 13 copies filed  
2 This 15th day of December, 2011, with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

7 **COPY** hand-delivered  
8 this 15th day of December, 2011 to:

9 Dwight D. Nodes  
10 Asst. Chief Administrative Law Judge  
11 Hearing Division  
12 Arizona Corporation Commission  
13 1200 W. Washington  
14 Phoenix, Arizona 85007-2927

15 Janice Alward, Chief Counsel  
16 Charles Hains, Esq.  
17 Legal Division  
18 Arizona Corporation Commission  
19 1200 West Washington Street  
20 Phoenix, AZ 85007

21 Steven M. Olea, Director  
22 Utilities Division  
23 Arizona Corporation Commission  
24 1200 West Washington Street  
25 Phoenix, AZ 85007

26 **COPY** mailed  
this 15th day of December, 2011 to:

Thomas H. Campbell  
Michael T. Hallam  
LEWIS AND ROCA LLP  
40 North Central Avenue  
Phoenix, AZ 85004

Michelle Wood, Esq.  
RUCO  
1110 West Washington Street, Suite 220  
Phoenix, AZ 85007

Greg Patterson, Director  
Water Utility Association of Arizona  
916 West Adams, Suite 3  
Phoenix, AZ 85007

Joan S. Burke  
Law Office of Joan S. Burke  
1650 North First Avenue  
Phoenix, AZ 85003

Curtis S. Ekmark  
Ekmark & Ekmark, LLC  
6720 North Scottsdale Road, Suite 261  
Scottsdale, AZ 85253

1 Michele L. Van Quathem  
2 Ryley Carlock & Applewhite, P.A.  
3 One North Central Avenue, Suite 1200  
4 Phoenix, AZ 85004-4417

5 Peggy Rahkola  
6 The Arizona Traditions Homeowners  
7 Association  
8 17221 N. Citrus  
9 Surprise, Arizona 85374

10 Jim Weihman  
11 The Happy Trails Community  
12 Association  
13 17200 W. Bell Rd.  
14 Surprise, Arizona 85374

15 Nicholas Mascia  
16 The Surprise Farms III Community  
17 Association  
18 1600 W. Broadway Rd., Suite 200  
19 Tempe, Arizona 85282

20 William B. Lipscomb  
21 Kingswood Parke Community  
22 Association  
23 14976 W. Bottletree Ave.  
24 Surprise, Arizona 85374

25 Kevin Chiariello  
26 Greer Ranch South HOA  
16074 W. Christy  
Surprise, Arizona 85379

Frederick G. Botha  
Mary L. Botha  
23024 N. Giovota Drive  
Sun City West, Arizona 85375

Michael D. Bailey  
City of Surprise  
16000 N. Civic Center Plaza  
Surprise, Arizona 85374

Peter Corpus  
Rochanee Corpus  
8425 N. 181st Drive  
Waddell, Arizona 85355

Mike Albertson  
6634 N. 176th Ave.  
Waddell, Arizona 85355

Brian O'Neal  
21373 W. Brittle Bush Ln.  
Buckeye, Arizona 85396

Craig & Nancy Plummer  
17174 W. Saguaro Ln.  
Surprise, Arizona 85388

William and Erin Parr  
18044 W. Georgia Ct.  
Litchfield Park, Arizona 85034

Sharon Wolcott  
20117 N. Painted Cove Ln.  
Surprise, Arizona 85387

Owen Dejanovich  
Clearwater Farms Three Homeowners  
Assoc.  
P.O. Box 72  
Waddell, Arizona 85355

Thomas and Laurie Decatur  
924 Torridon Ct.  
Pickerington, Ohio 43147

Jim Oravetz  
Legacy Park South Homeowners Assoc.  
1600 W. Broadway Rd., Ste. 200  
Tempe, Arizona 85282

Stan Mucha  
The Sun Village Community Association  
17300 N. Sun Valley Pkwy.  
Surprise, Arizona 85374

Jan Garcia  
Sycamore Estates Parcel 13 Community  
Association  
1600 W. Broadway Rd., Ste. 200  
Tempe, Arizona 85282

Jared Evenson  
Cross River Homeowners Association  
1600 W. Broadway Rd., Ste. 200  
Tempe, Arizona 85282

1 Timothy Duffy  
Cindy J. Duffy  
2 19997 N. Half Mood Dr.  
Surprise, Arizona 85374  
3  
4 Mike Smith  
Sierra Montana Homeowners Assoc.  
c/o Rossmar & Graham  
5 15396 N. 83rd Ave., Bldg. B., #101  
Peoria, Arizona 85381  
6  
7 Susan Harr  
Summerfield at Litchfield Subdivision  
HOA  
8 13201 N. 35th Ave., Ste. B-3  
Phoenix, Arizona 85029  
9  
10 Dana Rosenbaum  
Surprise Farms Community Assoc Phase  
1A  
11 P.O. Box 25466  
Tempe, Arizona 85285-5466  
12  
13 Jerome M. Ellison II  
Cortessa Community Assoc.  
P.O. Box 25466  
14 Tempe, Arizona 85285-5466  
15  
16 Jeanne Stockard  
Northwest Ranch HOA  
4742 N. 24th St., Ste. 325  
Phoenix, Arizona 85016  
17  
18 Garry D. Hays, Esq.  
1702 E. Highland Ave., Suite 204  
Phoenix, Arizona 85016  
19  
20 Ken Peterson  
Jackrabbit Estates HOA  
1600 W. Broadway Rd., Suite 200  
21 Tempe, AZ 85282  
22  
23 Mike Orose  
The Crystal Springs Estates HOA  
8407 N. 178th Avenue  
Waddell, AZ 85355  
24  
25 Paul Briningstool  
Ashton Ranch HOA  
P.O. Box 9151  
26 Surprise, AZ 85374

G. Thomas Hennessy  
Savannah HOA  
1600 W. Broadway Rd., Suite 200  
Tempe, AZ 85282

G. Thomas Hennessy  
Surprise Farms 5 Community  
Association  
1600 W. Broadway Rd., Suite 200  
Tempe, AZ 85282

Dana Miller  
Western Meadows Homeowners  
Association  
1600 W Broadway Road, Suite 200  
Tempe, AZ 85282

By *Maia Sanje*

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1 FENNEMORE CRAIG  
2 A Professional Corporation  
3 Jay L. Shapiro (No. 014650)  
4 Patrick J. Black (No. 017141)  
5 3003 North Central Avenue, Suite 2600  
6 Phoenix, Arizona 85012  
7 Telephone (602) 916-5000

8 Attorneys for EPCOR Water (USA) Inc.

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 IN THE MATTER OF THE APPLICATION  
11 OF ARIZONA-AMERICAN WATER  
12 COMPANY, AN ARIZONA  
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14 DETERMINATION OF THE CURRENT  
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ITS AGUA FRIA WATER DISTRICT,  
HAVASU WATER DISTRICT AND  
MOHAVE WATER DISTRICT

DOCKET NO: W-01303A-10-0448

16 TESTIMONY OF

17 JAMES W. MCKEE

18 ON BEHALF OF EPCOR WATER (USA), INC.

19 December 15, 2011  
20  
21  
22  
23  
24  
25  
26

- 1 **I. INTRODUCTION, BACKGROUND AND PURPOSE OF TESTIMONY**
- 2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**
- 3 **NUMBER.**
- 4 A. My name is James W. McKee. My business address is 9469 Rossdale Road,
- 5 Edmonton, Alberta, Canada T5K 0A5, and my telephone number is (780) 412-
- 6 3741.
- 7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**
- 8 A. I am employed by EPCOR Water Services Inc. in the capacity of Director,
- 9 Business Process Management.
- 10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**
- 11 A. On behalf of the Intervenor, EPCOR Water (USA), Inc. ("EPCOR Water").
- 12 EPCOR Water is an affiliate of EPCOR Water Services Inc.
- 13 **Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS CASE?**
- 14 A. No.
- 15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**
- 16 A. Yes, I testified in the proceeding to approve the reorganization of American States
- 17 Water Company, the parent of Chaparral City Water Company located in Fountain
- 18 Hills, Arizona. I also testified in the proceeding to approve the reorganization of
- 19 American Water, Arizona American Water Company's ("AAWC") parent
- 20 company. In both proceedings, the Commission granted approval for the
- 21 reorganizations. In Commission Decision No. 72688 (November 17, 2011), the
- 22 Commission granted approval for EPCOR Water to buy all of the outstanding stock
- 23 of AAWC from American Water.
- 24 **Q. HAS EPCOR WATER ACQUIRED THE STOCK YET?**
- 25 A. No, we have not closed the transaction. We are waiting for approval from the New
- 26 Mexico PRC as EPCOR Water is also intending to acquire the stock of New

1 Mexico American Water Company. If the New Mexico PRC approves the  
2 transaction by the end of the year and all appeal periods expire with no objections  
3 filed, we expect the close to occur at the end of January 2012.

4 **Q. WHAT HAS BEEN YOUR INVOLVEMENT IN THE ACQUISITION OF**  
5 **AAWC'S STOCK?**

6 A. After the parties reached an agreement, I provided assistance to EPCOR Water and  
7 American Water in preparing the application for approval of the reorganization. I  
8 also provided answers to Data Requests about EPCOR Water.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

10 A. To testify in support of the Settlement Agreement reached between all of the  
11 parties to this rate case.<sup>1</sup>

12 **II. EPCOR WATER'S PARTICIPATION IN RATE CASE AND**  
13 **SETTLEMENT AGREEMENT**

14 **Q. WHEN DID EPCOR WATER INTERVENE IN THIS RATE CASE?**

15 A. EPCOR Water was granted intervention on September 23, 2011. The request was  
16 made before that on August 24, 2011.

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20 <sup>1</sup> Settling Parties include EPCOR Water; AAWC; Arizona Corporation Commission Utilities Division ("Staff"); the  
21 Residential Utility Consumer Office ("RUCO"); Verrado Community Association, Inc. ("Verrado"); DMB White  
22 Tank, LLC ("DMB"); Water Utility Association of Arizona ("WUAA"); Mashie, LLC dba Corte Bella Golf Club  
23 ("Corte Bella"); Cross River Homeowners Association ("CRHA"); and Sun City Grand Community Association (for  
24 itself and as class representative for Arizona Traditions Homeowners Association, Inc., The Happy Trails  
25 Community Association, The Surprise Farms III Community Association, Greer Ranch South Homeowners  
26 Association, Northwest Ranch Homeowners Association, Russell Ranch Homeowners Association, Clearwater  
Farms Unit II Property Owners Association, Surprise Farms Unit II Community Association, Clearwater Farms  
Three Homeowners Association, Legacy Park South Homeowners Association, Sun Village Community Association,  
Sycamore Estates Parcel 13 Community Association, Surprise Farms Community Association, Phase 1A, Cortessa  
Community Association, Kingswood Parke Community Association, Inc., Sierra Montana Homeowners Association,  
and Summerfield at Litchfield Subdivision Homeowners Association) ("SCGCA").

1 **Q. WHY DID EPCOR WATER MOVE TO INTERVENE IN THE RATE**  
2 **CASE?**

3 A. When the rate case was delayed, it became more likely that EPCOR Water would  
4 be the owner of AAWC when new rates went into effect. That also made it  
5 possible that parties would have questions about EPCOR Water. Given this, we  
6 felt it prudent to intervene.

7 **Q. DID EPCOR WATER PREFILE TESTIMONY IN THE RATE CASE?**

8 A. No we did not. Although we moved for and were granted intervention, we thought  
9 it best to stay on the sidelines if we could. This was then and still is AAWC's rate  
10 case and AAWC is still owned by American Water.

11 **Q. DID YOU PARTICIPATE IN THE SETTLEMENT NEGOTIATIONS?**

12 A. Yes, I personally participated, along with others from EPCOR Water.

13 **Q. AND EPCOR WATER IS A SIGNATORY TO THE SETTLEMENT**  
14 **AGREEMENT?**

15 A. Yes.

16 **Q. DOES EPCOR WATER BELIEVE THAT THE COMMISSION SHOULD**  
17 **APPROVE THE SETTLEMENT AGREEMENT?**

18 A. Yes.

19 **Q. WHY DOES EPCOR WATER BELIEVE APPROVAL OF THE TERMS OF**  
20 **THE SETTLEMENT ARE IN THE PUBLIC INTEREST?**

21 A. Because it represents a balance of benefits to all parties. First, and foremost, all  
22 parties benefit from the elimination of time and resources that would be needed to  
23 continue with a lengthy and highly contentious rate proceeding. The parties also  
24 benefit from greater certainty sooner. Second, customers in Agua Fria will see rate  
25 increases that are smaller than what AAWC requested and phased in over three  
26 years to reduce the impact of the inclusion of the White Tanks Water Campus on

1 rates, which facility provides long-term water supply security. These ratepayers  
2 will also have the possibility for further rate reductions in the future if growth does  
3 take place in the Agua Fria District through the direct application of collected  
4 hook-up fees. On the other hand, AAWC benefits by being able to include the  
5 reasonable and prudent operating and capital costs of building the White Tanks  
6 Water Campus into rates. Third, ratepayers in Mohave and Havasu benefit because  
7 AAWC has reaffirmed its commitment to combat non-revenue water in those  
8 systems, and Corte Bella benefits by having its rate for irrigation water fixed at a  
9 fair, market based level. Fourth, every party gave up at least as much as they  
10 gained in order to make this settlement come together.

11 **Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADD MR. MCKEE?**

12 A. On behalf of EPCOR Water, I would like to thank all of the parties for participating  
13 in good faith and working tirelessly to reach agreement. The settlement isn't  
14 perfect and no one is really celebrating. But it most certainly represents the best  
15 possible result under very difficult circumstances. For that reason, EPCOR Water  
16 urges the Commission to approve the necessary terms of the Settlement Agreement  
17 between all parties to this rate case.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE**  
19 **SETTLEMENT AGREEMENT?**

20 A. Yes.

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